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TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
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FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **ANALYSIS OF CONTRACT MONITORING -- SOCIAL SERVICE
DEPARTMENTS**

We have completed an analysis of the Department of Children and Family Services (DCFS), Department of Community and Senior Services (DCSS), Department of Mental Health (DMH), and Department of Public Social Services (DPSS) contract monitoring efforts. The Probation Department was not included in the review, but we plan to assist Probation in contracting for fiscal monitoring during 2003-04. We will perform a review of the Department of Health Services' (DHS) contract monitoring at a later date.

We performed this review of the County's contract monitoring function for several reasons. First, there have been a number of serious contract problems that have been reported in audits, special investigations, or through other means over the last year that may have been discovered much earlier if the County had a more expert and robust contract monitoring program.

In addition, one of the goals in the County's strategic plan is to improve organizational effectiveness. A strategy under this goal is to review alternative support services models to maximize the ability of departments to focus on their core missions. The Auditor-Controller is in charge of this strategy and contract monitoring was adopted as one focus for achieving this strategy. Finally, the Auditor-Controller has a Department goal of evaluating the feasibility of expanding the role of the Auditor-Controller in countywide financial management and oversight.

Summary of Findings**Contract Monitoring Function Not Meeting its Objectives**

To be effective, contract monitoring must ensure contractors are regularly visited, that they provide the services contracted for, that they comply with all contract terms, and associated costs billed are valid and reasonably necessary to achieve the services contracted and units of services billed can be documented. These objectives are applicable whether the contract is a cost based or a fee-for-service contract.

Our review determined the County's contract monitoring function is not meeting these basic objectives much of the time and needs to be significantly improved. We observed some contracts are not monitored, others are infrequently monitored, and monitoring is not always standardized with the result that the extent of monitoring depends on the experience and conscientiousness of the individual monitor.

In addition, contract monitoring units in DCFS, DCSS, DMH, and DPSS are not staffed with employees who have sufficient expertise to identify contractor financial and program difficulties and other non-compliances with contract terms and conditions. While program monitors at times do review contractors' program deliverables, they don't have the training or expertise to identify problems through a combined evaluation of the financial aspects of the contractor's performance with the program deliverables. As a result, monitors are not discovering contractors experiencing financial difficulties or charging for unallowable expenditures. In some cases, contractors have fraudulently covered financial problems by submitting claims for fictitious program participants. The County's contract monitors are not trained to detect such irregularities.

Proposed Solution

The Auditor-Controller proposes that the Board request the Auditor-Controller to establish several pilot projects to test the merits of centralizing the contract monitoring in the Auditor-Controller in order to improve the County's contract monitoring function. We believe the Auditor-Controller is best suited to oversee this function based upon our audit expertise, and that we can improve the efficiency and effectiveness of contract monitoring process.

We propose that the pilot projects begin in 2003-04 and include using Auditor-Controller staff to perform monitoring, using department staff to monitor under the direction of Auditor-Controller staff, and using contract firms to provide for expanded monitoring under the direction of the Auditor-Controller.

If directed to proceed, by May 30th we will provide the Board and the Chief Administrative Office with an estimate of the impact on the Auditor-Controller's budget to perform the pilot projects. We hope to minimize the budget impact by working with the departments to find funding for pilot projects from their monitoring funds, and by using department staff.

We would anticipate providing a report to the Board on the results of the pilot projects by May, 2004 and making recommendations on the best approach for contract monitoring. The number of contracts identified so far in these four departments exceeds 2,800. Accordingly, if the pilot projects demonstrate the need to expand the centralized program, we anticipate it would take several years to fully staff it.

Please call me if you have any questions or need additional information, or your staff may call Pat McMahon at 213/974-0729.

JTM:PM:DR

Attachments

c: David E. Janssen
David Sanders
Robert Ryans
Marvin J. Southard
Bryce Yokomizo
Violet Varona-Lukens
Audit Committee
Public Information

SUMMARY OF REVIEW FINDINGS

Contract Monitoring Function not Meeting its Objectives

Over the last two years, my Department completed 12 reviews involving DCFS', DCSS', DMH's, and DPSS' contractors and/or the Departments' contract monitoring efforts. We have concluded that the contract monitoring units in these departments are not staffed with employees that have sufficient training or expertise to identify contractors with financial and program difficulties and other non-compliances with contract terms.

While program monitors do review contractors' program deliverables, they do not have the training or expertise to identify problems through a combined evaluation of the financial aspects of the contractors' performance with the program deliverables such as participants served, job placements, etc. As a result, monitors are not discovering contractors experiencing financial difficulties, billing departments for unallowable expenditures, or billing for incorrect numbers of program participants. In some cases, contractors have fraudulently covered financial problems by submitting claims for fictitious program participants. The County's contract monitors are not trained to detect and investigate such irregularities.

As a result, when the problems finally surface, whether as a result of an audit, special investigation, or other means, the problems often have become significantly larger from a financial and/or program standpoint, and many times threaten the ability of the agencies to continue in business. In many cases, the agencies are unable to repay the County for unallowable expenditures thereby exposing County departments to liabilities to the State and/or federal governments. In a few instances, contractor fraud was involved. It is also likely that because of lack of monitoring or deficient monitoring many problems do not surface, and therefore contractors are not held accountable for their financial and/or program performance.

To be effective, contract monitoring must ensure contractors are regularly visited, that they actually provide the services contracted for, that they comply with all contract terms, associated costs billed are valid and reasonably necessary to achieve the services contracted, and units billed can be documented. These objectives are applicable whether the contract is a cost based or fee-for-service contract.

We noted the following factors that contributed to the ineffective contract monitoring in these departments.

- Some contracts are not monitored. Accordingly, there is no independent evaluation of the contractor's financial or program performance.
- Formal procedures are not always established that identify the appropriate frequency with which contractors are to be reviewed. Each contract program should be evaluated to identify performance risks and monitoring frequency should be established accordingly.

- Monitoring staff does not always review all key areas, nor are comprehensive monitoring instruments always used for consistent coverage or to document compliance monitoring work performed. Without such instruments, monitoring is not standard, and the extent of monitoring depends on the experience and conscientiousness of the individual monitor. Monitoring instruments help ensure all important contract areas are consistently reviewed and provide performance accountability for monitors.
- Some Departments do not have formal training programs for contract monitors. We noted that overall, monitors lack expertise, particularly in the fiscal areas.
- The Departments' managers do not always provide sufficient supervision or oversight of the monitoring function.

Specific information regarding each Department's contract monitoring activities is included in Attachment 1.

Proposed Solution

It is apparent from our review, and our past experience auditing contracts, that more resources (or consolidated resources) are needed, as well as staff with the necessary expertise to oversee contract monitoring. Over time, as contracts are renewed, the contracts also need to be reviewed to ensure they include sufficient objective criteria that will enable contractor accountability. Finally, comprehensive, contract-related monitoring tools must be developed and continual training and increased expert supervision is needed to ensure quality reviews.

We have concluded that rather than having a separate monitoring unit in each department, it would appear desirable to establish a pilot project to test whether increased efficiency and effectiveness will result from combining the County's monitoring functions within one department with expertise to oversee the function. In addition to expert oversight, this would promote consistency and thoroughness of fiscal and program monitoring because one department would be dedicated to and accountable for the function. In addition, combining the disparate units and establishing a monitoring classification series would facilitate recruiting, training, and staff retention.

We believe the Auditor-Controller is best suited to perform the 2003-04 pilot project as the monitoring function is similar to auditing. In addition, the Auditor-Controller is organizationally placed to perform the function more independently than the program departments. The Auditor-Controller also already oversees the audit firms that monitor some programs for departments and has for several years performed monitoring of group homes for DCFS where a standardized and more efficient monitoring function was developed.

During the 2003-04 pilot year, we propose using several experienced auditors from the Auditor-Controller Audit Division to monitor several program contracts within one or more departments to provide a basis for developing the monitoring scope and an estimate of resources (or re-directed resources) needed to perform the function. We would also continue to refine the contract inventory in conjunction with development of the new contract database. In addition, we would evaluate the feasibility of hiring a firm(s) to perform contract monitoring in other departments under Auditor-Controller supervision in order to augment the monitoring program in 2003-04.

Finally, we would evaluate supervising existing monitoring units as another option for improving contract monitoring. This would require working with the selected departments to place their monitoring staff under Auditor-Controller supervision. In addition, we would evaluate increasing 2003-04 monitoring by contracting with firms to perform monitoring under our oversight.

Because there are over 2,800 contracts in the four Departments, if it is decided To consolidate contract monitoring within one department is the best approach, it will be necessary to accomplish the proposed contract monitoring consolidation over a multi-year time period approach.

Attachment 1

SOCIAL SERVICE DEPARTMENTS CONTRACT MONITORING

SUMMARY OF FINDINGS BY DEPARTMENT

Department of Children and Family Services

We reviewed the Department's contract monitoring efforts for the Family Preservation Network (\$24 million), Family Support Program (\$1.1 million), and Child Abuse Prevention Program (\$6.4 million). The three programs use 132 contractors to provide services. We also reviewed the Department's efforts to monitor approximately 8 Proposition A contracts for approximately \$2.6 million.

We noted the following:

- There is no fiscal or program monitoring of the 92 Family Support Program and the Child Abuse Prevention Program contractors. Program staff only provide technical support and compare amounts listed on remittance invoices to budget amount. As a result, the Department cannot assure that the contractors are complying with the provisions of their County contract and that the programs are operating as planned.
- For contracts that are monitored staff do not always review all key areas. For example, fiscal monitors for the Family Preservation Network contractors do not interview program participants to verify the units of services that the contractors reported were provided. Also, monitors do not always reconcile the expenditures in each service provider's official accounting records (usually the general ledger) to the expenditures claimed by the service provider, and with the amounts paid to the service provider.
- Formal procedures are not always established that identify the appropriate frequency with which service providers are reviewed. For example, the Department uses the Auditor-Controller's Master Agreement to hire auditors to monitor the 40 Family Preservation Network contractors at least once a year. In addition, staff from the Department's Quality Assurance Unit conducts a review of each contractor at least once during a fiscal year. However, as noted above, some programs are not monitored.
- Prior to January 2003, the Department did not monitor its Proposition A contractors for compliance with the County's Living Wage Ordinance.

Departments of Public Social Services and Community and Senior Services

In October 2002, we issued a report on DPSS' and DCSS' contract monitoring efforts. Our report, which is attached, noted that the contract monitoring activities in both departments need to be improved to ensure that contracted services are actually provided and associated costs are valid. For example:

- Monitors do not always review all key areas. Neither department's contract monitors (including the contracted Master Agreement accounting firms) do not interview program participants to verify the units of services that the contractors reported were provided. Monitors also do not always reconcile the expenditures in each service provider's official accounting records (usually the general ledger) to the expenditures claimed by the service provider, and with the amount that the departments paid to the service provider.
- Monitors do not always use monitoring instruments for consistent coverage and to document their work. Monitoring instruments are forms that list the actions and procedures contract and program staff is supposed to follow in evaluating a contractor's compliance with contract terms and conditions. Monitoring instruments also provide guidance to staff and help ensure consistency amongst monitors within the same program.
- Formal procedures are not always established that identify the appropriate frequency with which service providers are reviewed.
- Neither department has a formal training program for its contract monitors.

Department of Mental Health

We reviewed the Department's contract monitoring efforts for the 109 Early, Periodic, Screening, Diagnosis, and Treatment Program (\$315 million) contractors. We noted the following:

- The Department uses the County's Master Agreement to hire an accounting firm to conduct fiscal monitoring of the program's contractors. The reviews cover all key fiscal areas. However, each contractor is reviewed only once every three years.
- In instances in which the accounting firm notes areas of non-compliance, the Department requires the contractor to submit a corrective action plan and certify the plan was implemented. However, the Department does not conduct systematic onsite reviews to confirm the contractors actually implemented the corrective actions. In addition, the Department does not take action against contractors that do not submit a corrective action plan within the required timeframe. For example, contractors are required to submit a corrective action plan to correct areas of non-compliance within 30 days of being notified by the Department. However, as of

February 2003, approximately 20% of the providers reviewed during Fiscal Year 2001-02 have not submitted corrective actions plans or indicated that the areas of noted non-compliance have been corrected.

- Program monitoring is conducted by the Department's Standards, Practices & Conduct Unit (SPC Unit) and by individual Bureau staff. All service providers complete a self-assessment each year. However, SPC Unit staff confirms the accuracy of the self-assessments for only a portion of CC providers each year.
- Staff assigned to the SPC Unit has extensive program knowledge but very little training in auditing and accounting to help in monitoring the contractors.
- The Department does not have centralized oversight for effective contract monitoring. For example, the Department reported that the SPC Unit staff report contractors' non-compliance to the Department's service area managers responsible for the contractors. The service managers are responsible for ensuring contractors correct the non-compliance issues. However, the SPC Unit does not follow up to ensure that the service managers notified the contractors to correct areas of non-compliance or are notified when the noted deficiencies are corrected.

In interviewing SPC unit staff and service managers, we noted that service area managers are not effectively following up to ensure the contractors correct noted areas of non-compliance.